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April 22, 2015

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007-2996

James R. Hatfield
Executive Vice President
& Chief Financial Officer

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Phoenix, Arizona 85072
Mail Station 9036
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Arizona Corporation Commission
DOCKETED

APR 22 2015

DOCKETED BY

Re: Compliance Filing of Arizona Public Service Company Regarding APS
Expense Reduction Commitment, Docket No. E-01345A-08-0172
(2009 APS Settlement Agreement).

Dear Sir or Madam:

As part of its 2009 rate case settlement (the "2009 Settlement")¹, APS agreed to sustain \$20 million worth of expense savings reported to the Commission in 2009, and to continue to reduce expenses by an annual average amount of \$30 million each year through 2014, for a cumulative total reduction of \$150 million.

APS is acutely focused on cost management, not only to comply with its 2009 Settlement obligation, but also to show customers, stakeholders, investors, credit rating agencies, and the Commission that APS is a company that is committed to fiscal responsibility. That focus is critical both for APS to meet its expense reduction commitment and to strengthen the Company's credit quality and financial metrics during both the 2009 Settlement term and the 2012-2016 term of APS's more recent Settlement Agreement, filed in Docket No. E-01345A-11-0224. Towards those ends, APS has continued to implement a comprehensive, strategic cost management initiative in an effort to continue to make operations more efficient and further drive costs down where appropriate.

In 2014 APS removed at least \$34,400,000 in expenses from its cost structure. These savings include the following:

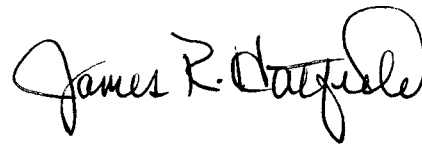
¹ Approved by the Commission in Decision No. 71448 (December 30, 2009). The expense reduction commitment is located in Section VII of the Settlement Agreement.

Area	Action Taken	2014 Expense Savings
Supply Chain Savings	Reduced labor & related costs due to reduced staffing; reduced contract services costs including the Long Term Services Agreement (LTSA) associated with the Redhawk power plant, fossil industrial services and vegetation management	\$1,600,000
Energy Delivery Dept Savings	Reduced labor & related costs due to reduced staffing	\$1,000,000
Accounting and Finance Dept Savings	Reduced labor & related costs due to reduced staffing; reduced outside services costs.	\$1,600,000
Information Technology Dept savings	Reduced labor & related costs due to reduced staffing	\$3,000,000
Law Department and Government Affairs Dept. savings	Reduced labor & related costs due to reduced staffing; reduced outside counsel costs	\$2,100,000
Sustainability Dept Savings	Reduced labor & related costs due to reduced staffing; reduced leased facilities costs.	\$1,700,000
Medical & pharmacy benefit costs	Adjusted plan details to manage costs	\$1,800,000
Post-retirement medical costs	Changed future coverage to exchange-based plan for some retirees	\$4,800,000
Interest Savings	Saved interest costs in 2014 related to the accumulated reduced expenditures from 2010 to present.	\$10,300,000
Management and Employee Compensation	Maintained 2008 base compensation levels in 2009 for all management employees and many non-union front line employees, resulting in continued savings in 2014.	\$6,500,000
TOTAL		\$ 34,400,000

Letter to Docket Control
April 22, 2015

As discussed above, APS has been and remains committed to a Company-wide emphasis on efficiency and cost management, both during the 2009 Settlement term and beyond, as demonstrated by the savings of over \$34 million in 2014. Since this letter fulfills our obligations as outlined in the Settlement, it will be the last such letter sent. It is appropriate to note that this letter and prior letters have outlined over \$180 million in savings, well over the \$150 million called for in the Settlement. We believe this more than demonstrates that APS is committed to disciplined cost management.

Sincerely,

A handwritten signature in black ink, reading "James R. Hatfield". The signature is written in a cursive style with a large, looped "H" and a stylized "J".

James R. Hatfield

cc: Parties to the Docket;
Original and 13 copies to Docket Control